

**REPORT OF THE AUDIT OF THE
FLEMING COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Homer Hurst, Jr., Fleming County Judge/Executive
Honorable Marilyn Spencer, Fleming County Clerk
Members of the Fleming County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Fleming County, Kentucky for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Fleming County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
FLEMING COUNTY CLERK**

**For The Year Ended
December 31, 2001**

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FLEMING COUNTY CLERK

**For The Year Ended
December 31, 2001**

Berger & Ross, PLLC has completed the Fleming County Clerk's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition

Excess Fees decreased by \$5,150 from the prior calendar year, resulting in excess fees of, \$84,271 as of December 31, 2001. Revenues increased by \$32,783 from the prior year and disbursements increased by \$35,180.

Report Comment:

- The County Clerk's Office Lacks Proper Segregation of Duties

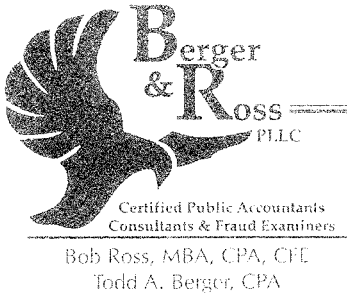
Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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Members:

American Institute of CPAs (AICPA)
Fidelity Investments
Association of Certified Financial Planners
Association of Government Accountants
Government Accounting Systems Institute
National Association of Accountants
National Association of Public Accountants
Government Auditing Standards Association

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Fleming County Clerk of Fleming County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated July 18, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following reportable condition:

- The County Clerk's Office Lacks Proper Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed –
July 18, 2002

FLEMING COUNTY
MARILYN SPENCER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

State Fees for Services		\$	6,539
Fiscal Court			4,374
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	378,987	
Usage Tax		1,431,497	
Tangible Personal Property Tax		882,392	
Licenses			
Fish and Game		18,086	
Marriage		4,597	
Deed Transfer Tax		26,100	
Delinquent Taxes		<u>32,288</u>	2,773,947
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	11,092	
Real Estate Mortgages		23,400	
Chattle Mortgages and Financing Statements		51,798	
Powers of Attorney		570	
Other Recordings		<u>15,378</u>	102,238
Other:			
Copywork	\$	5,034	
Miscellaneous		1,986	
Interest Earned		<u>2,152</u>	<u>9,172</u>
Total Receipts		\$	2,896,270

The accompanying notes are an integral part of the financial statement.

FLEMING COUNTY
 MARILYN SPENCER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DEISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 285,776	
Usage Tax	1,384,158	
Tangible Personal Property Tax	<u>311,991</u>	\$ 1,981,925

Licenses and Taxes -

Fish and Game	\$ 18,209	
Marriage	1,300	
Delinquent Tax	4,007	
Legal Process Tax	<u>13,183</u>	36,699

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 98,020	
Delinquent Tax	6,102	
Deed Transfer Tax	<u>24,795</u>	128,917

Payments to Other Districts:

Tangible Personal Property Tax	\$ 436,499	
Delinquent Tax	<u>14,130</u>	450,629

Payments to Sheriff 1,144

Payments to County Attorney 4,412

Operating Disbursements:

Personnel Services -

Deputies' Salaries	\$ 89,327	
Part Time Salaries	<u>5,695</u>	<u>95,022</u>

Disbursements (Carried Forward) \$ 2,698,748

The accompanying notes are an integral part of the financial statement.

FLEMING COUNTY
 MARILYN SPENCER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DEISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements (Brought Forward)		\$ 2,698,748
Capital Outlay:		
Office Equipment		10,242
Debt Service:		
Lease Purchase		7,267
Other Charges:		
Conventions and Traveling	\$ 3,472	
Dues	450	
Indexing	5,103	
Postage	3,418	
Refunds	6,010	
Office Supplies	7,074	
Miscellaneous	3,162	28,689
Total Disbursements		<u>\$ 2,744,946</u>
Net Receipts		\$ 151,324
Less: Statutory Maximum		<u>61,306</u>
Excess Fees		\$ 90,018
Less: Expense Allowance	\$ 3,600	
Less: Training Fringe Benefits	2,147	5,747
Excess Fees Due County for Calendar Year 2001		\$ 84,271
Less: Payment to County Treasurer - January 22, 2002	\$ 75,000	
Less: Payment to County Treasurer - July 18, 2002	9,271	84,271
Amount Due		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

FLEMING COUNTY
NOTES TO THE FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies instrumentalities, obligations, and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

FLEMING COUNTY
MARILYN SPENCER, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Leases

The office of the County Clerk is committed to an operating lease agreement with Toshiba for two copiers. The agreement requires a monthly payment of \$416 for 60 months to be completed on November 24, 2004. The total balance of the agreement was \$14,580 as of December 31, 2001.

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COMMENT AND RECOMMENDATION

FLEMING COUNTY
MARILYN SPENCER, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2001

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgement is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of adequate segregation of duties. However, we have judged the lack of an adequate segregation of duties as a reportable condition. We recommend that compensating controls be established over receipts and disbursements.

County Clerk's Response:

No Response.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Chartered Accountants Association
National Association of Accountants
National Association of Certified Public Accountants
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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Fleming County Clerk for the year ended December 31, 2001, and have issued our report thereon dated July 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fleming County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fleming County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable Conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The County Clerk's Office Lacks Proper Segregation of Duties
- Report on Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition referred to above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Berger & Ross, PLLC

Audit Fieldwork completed –
July 18, 2002

